

**The CBM program should expire this week as provided by law — Effective alternatives for robust administrative reviews of issued patents remain**

By Ron D. Katznelson \*

The Transitional Program for Covered Business Method Patent Review (CBMR) was enacted in § 18 of the America Invents Act (AIA) for reviewing issued Covered Business Method (CBM) patents – patents that claim “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service ....”<sup>1</sup> The AIA also set a sunset expiration date for CBMR on September 16, 2020.<sup>2</sup> For the reasons explained below, CBMR should expire this week as intended and enacted in the AIA. As further explained below, those who wish to challenge CBM patents after that date, can effectively do so using any of the three alternative administrative proceedings at the US Patent & Trademark Office (PTO) that remain available with no sunset expiration, or by federal court action.

In contrast with the AIA’s *inter partes* review (IPR) trials that permit patent invalidity challenges based only upon grounds of anticipation and obviousness over prior art (35 U.S.C. §§ 102, 103), CBMR challenges, like Post Grant Review (PGR) challenges, may be based upon any ground of patent invalidity, including the *additional* grounds of subject matter ineligibility (35 U.S.C. § 101), and lack of claim support in the specification or indefiniteness (35 U.S.C. § 112).<sup>3</sup> Moreover, patent challengers risk much less in CBMRs than in other types of AIA trial proceedings at the Patent Trial and Appeal Board (PTAB) because a petitioner in CBMR is exempted from estoppel after a final PTAB decision adverse to the petitioner, which allows the petitioner to challenge the patent again in district court or the US International Trade Commission (ITC) on the same grounds upon which it lost at the PTAB.<sup>4</sup> The broader range of statutory grounds for challenging patents, coupled with the freedom from estoppel, make CBMRs more attractive to patent challengers who seek to sidestep the protections available to patent owners in Article III courts.

**Why did Congress set CBMR to expire on September 16, 2020?**

As its “transitional” name suggests, Congress made the CBMR temporary for a reason. Following the Federal Circuit’s decision in *State Street*,<sup>5</sup> the PTO

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<sup>1</sup> AIA § 18(d)(1).

<sup>2</sup> AIA § 18(a)(3).

<sup>3</sup> 35 U.S.C. § 321(b). See 37 C.F.R. § 42.304(b)(2).

<sup>4</sup> AIA § 18(a)(1)(A) specifically *excludes* as applicable to CBM the estoppel provision in 35 U.S.C. §315(e)(2), which provides that after a final written decision in a proceeding before the PTAB, the petitioner may not raise in court action or an ITC proceeding “any ground that the petitioner raised or reasonably could have raised during that [proceeding].”

<sup>5</sup> *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1375 (Fed. Cir.1998) (Holding that a business method invention involving “transformation of data, representing discrete dollar amounts” is patentable if it yields a “useful, concrete

experienced a significant increase in business method patent application filings from 1,300 in fiscal year 1998 to 7,800 filings in fiscal year 2000, from which the PTO issued 900 patents in 2000.<sup>6</sup> “At the time, the USPTO lacked a sufficient number of examiners with expertise in the relevant art area.”<sup>7</sup> Congress later received complaints from the financial industry alleging that this resulted in “the issuance of poor [quality] business-method patents during the late 1990’s through *the early 2000’s*.”<sup>8</sup> By the early 2000’s, however, the PTO had implemented special examination guidelines for business methods,<sup>9</sup> trained a large number of examiners with expertise for examining business method applications,<sup>10</sup> and instituted the “Second Pair of Eyes” review program “requiring a second-level review of all allowed applications in Class 705 [business methods] by an additional experienced examiner.”<sup>11</sup>

Since Congress concluded that the problem of poor quality financial business method patents was transient and that the CBMR should only exist during a “transitional” period, the Senate bill provided for a CBMR sunset after 4 years following the establishment of the CBMR.<sup>12</sup> While such 4-year sunset would have permitted challenging the old financial business method patents issued prior to the early 2000’s, the final CBMR provision in the House bill that Congress enacted in the AIA provided for a later sunset – until these alleged poorly-examined patents expire. The House Report explains that “[t]he program sunsets after 10 years, which ensures that patent holders cannot delay filing a lawsuit over a shorter time period to avoid reevaluation under the transitional program.”<sup>13</sup> Senator Chuck Schumer argued that

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and tangible result.”). This test has been superseded. *In re Bilski*, 545 F.3d 943, 959-60 (Fed. Cir. 2008) (*en banc*), *aff’d by Bilski v. Kappos*, 561 U.S. 593 (2010).

<sup>6</sup> Statement of Nicholas Godici, Acting Director of the PTO, *Business method patents*. Hearing before the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property, 107th Cong., 1st Sess. at 9 (April 4, 2001).

<sup>7</sup> H.R. Rpt. 112-98 pt. 1, (June 1, 2011), at 54.

<sup>8</sup> *Id.* (Emphasis added).

<sup>9</sup> See Manual of Patent Examining Procedure § 2106 (Rev. 1, Feb. 2000) (“Office personnel have had difficulty in properly treating claims directed to methods of doing business. Claims should not be categorized as methods of doing business. Instead, such claims should be treated like any other process claims, pursuant to these Guidelines when relevant.”); *Notice of Roundtable on Computer-Implemented Business Method Patent Issues*, 65 Fed. Reg. 38811 (June 22, 2000); *Notification of Required and Optional Search Criteria for Computer Implemented Business Method Patent Applications in Class 705*, 66 Fed. Reg. 30167 (June 5, 2001).

<sup>10</sup> Godici statement, *supra* note 6 at 10 (The PTO increased the number of examiners in Class 705 from 17 at the end of 1997 to 77 by April 2001).

<sup>11</sup> *Id.* (The PTO also provided examiners with access to over 900 databases, over one third of which contained business and financial information, and promulgated a revision to 37 C.F.R. § 1.105, explicitly authorizing examiners to ask for information that may be necessary to properly examine an application).

<sup>12</sup> S. 23. *America Invents Act*, U.S. Senate, 112th Cong. 1st Sess. (March 8, 2011). See § 18.

<sup>13</sup> H.R. Rpt. 112-98 pt. 1, (June 1, 2011), at 54.

the previous four-year sunset provision of S. 23 was too short because “bad actors would just wait out the program before bringing their business method suits.”<sup>14</sup> This argument is predicated on the fact that a CBMR petition cannot be filed unless the petitioner “has been sued for infringement of the patent or has been charged with infringement under that patent.”<sup>15</sup> It is this “delayed assertion” of patents narrative that extended the CBMR sunset date to September 16, 2020 – about the date when the 20-years-*from-filing* patent term of these alleged poorly-examined patents will have expired.

The limited scope in subject matter and the expiration date of the CBMR were essential components of the delicate and balanced legislative compromise reached by diverse stakeholders in enacting the AIA. Extending the CBMR program would upset the original legislative intent in enacting the AIA. Were such an extension to be considered, maintaining the balance would justify reopening the door for previously-surrendered fairness-enhancing provisions in all AIA trials. These may include amendments to provide for the clear and convincing evidence standard of proof for invalidating issued patents, and providing other due-process protections lacking in AIA trials that are available in Article III courts.

### **Should CBMR be extended to permit review of eligibility under Section 101?**

As detailed above, by the early 2000’s the PTO had trained and guided business-method specialist examiners and streamlined examination of financial business method inventions for better quality. Of course, examination quality *generally* still remained wanting. But those remaining issues were mostly technology-neutral and affected examination of applications in *all* technology disciplines – not only those for financial business methods. Subsequently, in the latter half of the 2000’s, the PTO allotted examiners with additional two hours of examination time per application, expanded non-examining time allotments for examiners such as examiner-initiated interviews including “Interviews before First Action,”<sup>16</sup> and increased resources available for examiner certification.

Challenges certainly remained at the PTO for examining applications under Section 101. The courts’ patent-eligible subject matter jurisprudence culminating in *Bilski* in 2008-2010 and *Alice* in 2012-2014, sowed instability, ambiguity, and uncertainty for inventors, practitioners, and PTO examiners alike. Proponents for extending the CBMR pointed to the timing of the *Bilski* and *Alice* decisions as remedial events, alleging that “the *Alice* decision in 2014 was, to a great extent, needed because PTO did not get it in 2009, 2010, 2011” and that “there were bad patents issues in 2011, 2012, 2013, 2014, and ... there are still vague patents that come out that CBM.”<sup>17</sup>

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<sup>14</sup> Statement of Sen. Schumer, 157 Cong. Rec. at S5410 (daily ed. Sept. 8, 2011).

<sup>15</sup> AIA § 18(a)(1)(B).

<sup>16</sup> Official Gazette of the Patent Office (27 April 2004).

<sup>17</sup> Remarks of Rep. Darrell Issa, in *Assessing the Effectiveness of the Transitional Program for Covered Business Method Patents*, Hearing before the House Judiciary Subcommittee on Courts, Intellectual Property, and the Internet. 105th Cong. 2d Sess. at 11 (March 20, 2018).

This argument, however, is a non-sequitur for extending CBMR. The PTO's examination challenges under Section 101 were not technology-specific, not unique to business methods, and certainly *not related to financial business methods within the scope of CBM*. The Section 101 examination challenge spanned broadly across technologies; it cannot be a justification for extending a narrow technology-specific review program, but rather a justification for the application of technology-neutral reviews. Those include *ex parte* reexaminations, PGRs for addressing Sections 101 or 112 concerns in post-AIA patents, and IPRs for matters relating to prior art. There is no justification after the sunset of CBMR for treating later-examined financial business method patents any differently than other patents.

Indeed, the PTO urged that the CBMR should *not* be extended. In its report on the AIA, the PTO stated that it “recommends adhering to the sunset period and discontinuing CBM proceedings on September 16, 2020” and suggests that “third parties may challenge patents for ineligible subject matter under both Section 6 of the AIA for IPR and PGR proceedings, the latter of which permits a patent ineligibility challenge.”<sup>18</sup> Moreover, the PTO appears to have very stringent scrutiny of applications with CBM subject matter. The Office's post-*Alice* allowance rate of patent applications classified under “data processing: financial, business practice, management, or cost/price determination” is only 5.9%.<sup>19</sup>

In 2015, the House Judiciary Committee considered, but rejected an amendment that would have extended the CBMR. The ranking member opposed the amendment, noting the transitional framework of CBMR; the fact that the PTO had improperly broadened the scope of the program beyond its statutory contours; that CBMR has become “a new tool for infringers to drain legitimate patent holders of resources;” and that extending CBM “would work injustice on legitimate patent holders.”<sup>20</sup> In 2018, the House held hearings on CBMR and debated whether CBMR should be extended. The ranking member expressed skepticism “of any effort to expand [CBMR] beyond its limited scope, which has significantly lengthened the life of the program. The CBM Program was enacted in part on the premise that it would be temporary. And I have not seen evidence to date that a dramatic expansion is warranted.”<sup>21</sup>

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<sup>18</sup> USPTO, “*Study and Report on the Implementation of the Leahy-Smith America Invents Act*,” at 39, (Sept. 2015).

<sup>19</sup> “Navigating Art Unit 3689, If You Must,” *Patnotechnic* Blog, (May 2018). At [www.patnotechnic.com/2018/05/navigating-art-unit-3689-if-you-must.html](http://www.patnotechnic.com/2018/05/navigating-art-unit-3689-if-you-must.html).

<sup>20</sup> Gene Quinn, “Amendment to extend CBM defeated in House Judiciary Committee,” *IPWatchdog* Blog (June 11, 2015). At [www.ipwatchdog.com/2015/06/11/amendment-to-extend-cbm-defeated-in-house-judiciary-committee](http://www.ipwatchdog.com/2015/06/11/amendment-to-extend-cbm-defeated-in-house-judiciary-committee).

<sup>21</sup> Statement of Rep. Jerry Nadler, in *Assessing the Effectiveness of the Transitional Program for Covered Business Method Patents*, Hearing before the House Judiciary Subcommittee on Courts, Intellectual Property, and the Internet. 105th Cong. 2d Sess. at 5-6 (March 20, 2018).

### **Is the CBMR program abused?**

Unfortunately, CBMR petitions have challenged patents directed to technologies far and remote from the financial services industry. For example, these challenged patents involve technologies concerning improved Digital Rights Management (DRM) for digital content,<sup>22</sup> Ethernet management,<sup>23</sup> pharmaceuticals,<sup>24</sup> and even “a method for providing a shopper with personalized nutrition information.”<sup>25</sup> One study found that only half of all the patents challenged in CBMRs were originally assigned class 705 during prosecution—the traditional classification of business method inventions.<sup>26</sup> And contrary to the CBMR’s intended use, top-ranking users of CBMRs to challenge patents are neither banks nor financial industry companies: the top two users are Apple and Google, who each initiated 73 and 53 CBMRs respectively.<sup>27</sup> This should not come as a surprise, as opponents of Section 18 of the AIA presaged this outcome in the first place.<sup>28</sup>

Infact, pioneering computer or software-implemented inventions have been improperly drawn into the CBMR. Protections for technologies from artificial intelligence to DRM to blockchain or to cybersecurity—which are implemented through software—are put at greater risk because of the CBM Program. This risk reduces incentives for investment in research and development in these areas due to a perception that the patents protecting the exclusive rights obtained by such investment can be singled-out and more easily challenged and invalidated than patents in other areas. The value of uniformity within the patent system can be upset by carve outs for certain industries and specific types of patents. The CBMR is a prime example; it is effectively a government program that picks technology winners and losers.

### **Do benefits of CBMR justify the administrative burden of keeping it alive?**

The results in Figure 1 below were obtained as part of a recent study by US Inventor, a non-profit organization representing individual inventors. First, the analysis shows

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<sup>22</sup> *Google Inc. and Apple Inc., v. Contentguard Holdings, Inc.*, CBM2015-00040, CBM2015-00160, Paper No. 34, at 7-12 (PTAB. Jun 21, 2016).

<sup>23</sup> *Sony Corp. of Am. v. Network-1 Techs., Inc.*, CBM2015-00078, Paper 7, at 8–9 (PTAB. July 1, 2015)

<sup>24</sup> *Par Pharma., Inc. v. Jazz Pharma., Inc.*, CBM2014-00149, CBM2014-00150, CBM2014-00151, and CBM2014-00153, Paper No. 11, at 4 (PTAB. Jan. 13, 2015).

<sup>25</sup> *Google Inc. v. Better Food Choices LLC*, CBM2015-00071, Paper No. 10, at 9 (PTAB. Aug. 20, 2015).

<sup>26</sup> See Manny Schecter, et al., “The Effects of *Alice* on Covered Business Method (CBM) Reviews,” 14 *NW. J. Tech. & Intell. Prop.* 381, 391 (2017) (Suggesting that the PTAB may be “overinclusive” in instituting CBM proceedings.)

<sup>27</sup> See Unified Patents Portal, [CBM ranking by petitioner](#) (June 27, 2020).

<sup>28</sup> See 157 Cong. Rec. at S5408 (daily ed. Sept. 8, 2011) (statement of Sen. Cantwell) (“[T]his is basically drafted so broadly that I am worried that other technology companies are going to get swept up in the definition and their patents are also going to be thrown out as invalid.”)

that the use of CBMR has declined to insignificant levels in recent years – to the point of zero filings in two consecutive quarters of 2019. Second, Figure 1 shows that the success rate of petitioners steadily declined to the point that *none* prevailed in CBMR petitions filed after July 2018 for which the PTAB rendered a decision. This is a strong indicator that the benefits of CBMR no longer justify the administrative burden on the parties and the PTO for keeping it alive after its intended sunset on September 16, 2020.

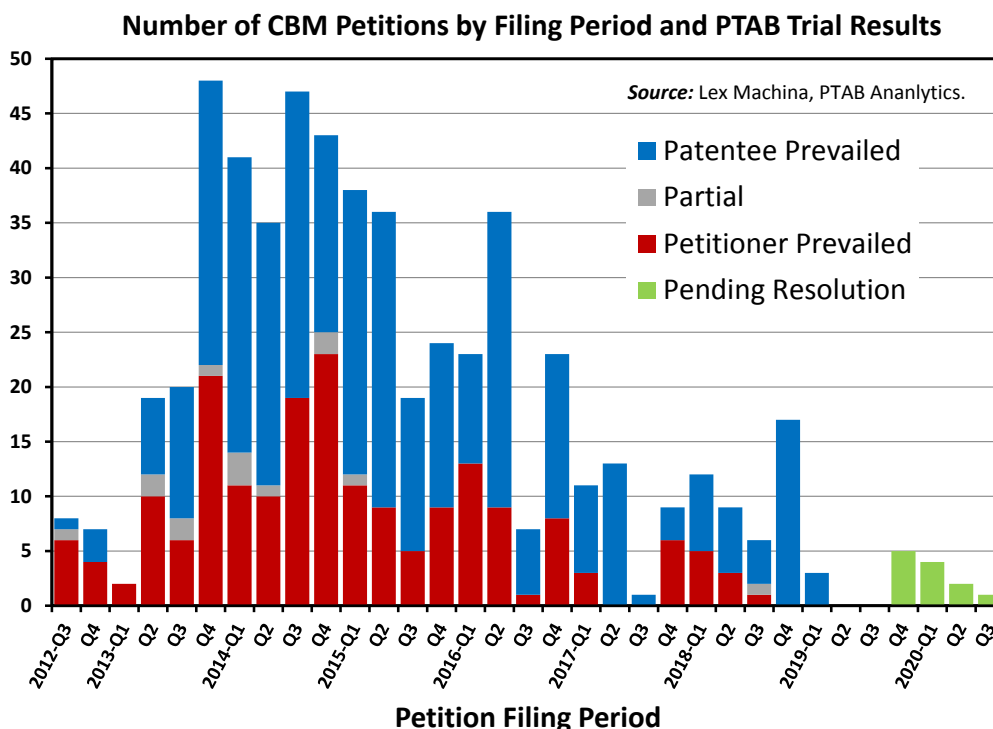


Figure 1. Results of CBM petitions by their filing quarter. Analysis covers 594 CBM petitions filed between Sep. 16, 2012 and Sept. 8, 2020. “Patentee Prevailed” cases are those denied institution, dismissed, or settled. “Partial” cases are those with mixed claims results. “Petitioner Prevailed” cases are those where all claims were found unpatentable; all claims amended; or patentee disclaimed the challenged claims. “Pending Resolution” cases are those awaiting institution decision or final written decision. Cases joined to other trials are not shown.

### What parties actually “delay assertion actions”?

A special interest group dubbed the “Quality Patents Coalition,” is reportedly urging Congress to extend the CBMR by one year. The group’s letter explains that the additional year is needed to counter delayed assertions of CBM patents because “some patent owners are waiting until after September 16 to assert their business method patents.”<sup>29</sup> This “delayed assertion” narrative, however, has already been exhausted. As discussed above, in 2011 Senator Schumer advanced this theory for extending the CBMR to September 16, 2020. And the CBM patents for which CBMR was established under the Schumer extension have already expired – there is simply

<sup>29</sup> Eileen McDermott, “Special Interest Group Implores Congress to Extend CBM Program,” *IPWatchdog* Blog (September 3, 2020). At [www.ipwatchdog.com/2020/09/03/special-interest-group-implores-congress-extend-cbm-program/](http://www.ipwatchdog.com/2020/09/03/special-interest-group-implores-congress-extend-cbm-program/).

no justification for an additional extension. Even if there were such patent owners who find value in avoiding CBMR, what would prevent them from waiting out the next year? What would prevent the proponents from using this logic *again* a year from now to ask for another extension?

Other technology-neutral proceedings for review of issued patents will continue to be available after the CBMR expires. PGR, IPR, and *ex parte* reexamination can be used for addressing invalidity concerns in all patents, including financial services patents. Federal court proceedings, too, remain available as always for those who can meet the low bar for declaratory judgment jurisdiction.

Since AIA trials became available in 2012, those who wished to challenge post-AIA-issued CBM patents without having been charged with infringement could have done so in PGR proceedings using all invalidity grounds including Section 101. Of course, they would have had to track new patent issuances in their field and proactively file petitions within 9-months after issuance to meet the PGR filing deadline.<sup>30</sup> However, given the low number of PGR trials, it appears that very few patent challengers availed themselves of this opportunity.

Currently, about 95% of patents that issue are post-AIA patents<sup>31</sup> eligible for a challenge in PGRs. Yet, it appears that PGR proceedings are hardly utilized and that users of inventions patented by others prefer to wait out the patentee and refrain from challenging the patent until sued for infringement. Rational users diligently engaged in Freedom-to-Operate investigations are presumed to have awareness of patents that may cover their activity. If they so believe, but take no license on such patent, it must be presumed that they believe the patent to be invalid. In this scenario, users delay resolution of whether the patent claims are invalid. In the meantime, the users and the patent holder or its privies may make investments and developments under opposite presumptions: the patent holder will presume, as the patent law provides, that the patent is valid, and the users will presume it invalid. Delay in resolving the potential dispute is costly to both parties and the public. By not asserting invalidity and challenging the patent under PGR early when the 9-month window is open, *it is the would-be petitioner that “delays assertion actions.”*

The positive impact of the timely expiration of CBMR is that it would likely shift the removal of any invalid post-AIA CBM patents to much earlier dates, as interested parties proactively initiate PGR proceedings within 9 months of patent issuance. This would benefit financial industry firms by clearing the field of invalid CBM patents *early*, thereby simplifying their Freedom-to-Operate analysis for the relevant technologies being used.

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<sup>30</sup> 35 U.S.C. § 321(c) (PGR petition must be filed not later than 9 months after the issuance of the challenged patent).

<sup>31</sup> Dennis Crouch, “AIA Patents Update,” *PatentlyO* Blog (March 15, 2020). At <https://patentlyo.com/patent/2020/03/aia-patents-update.html>.

## **Conclusion**

CBMR is dying off based on its own disuse. It should expire this week as intended and provided by the AIA. Those who wish to challenge CBM patents after that date, can effectively use any of the three alternative administrative proceedings at the PTO that remain available with no sunset expiration.

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